

# Fuel Taxes Newsletter

State  
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Equalization

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## June 2005

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## All Fuel Tax and Fee Programs

### 1. Bill of Rights hearings—We want to hear from you

Do you have an idea for improving our service or a concern about a tax or fee issue? Come present your case to the elected Members of the State Board of Equalization at one of our Taxpayers' Bill of Rights hearings.

You do not need to contact us to speak at the hearing. But we can prepare better if you let us know your topic in advance. If your proposal is complex or extensive, please send us a written copy before the hearing and summarize it in your oral presentation.

#### Culver City

Wednesday, September 21, 2005, 1:30 p.m.  
State Board of Equalization District Office  
5901 Green Valley Circle, Suite 207

#### Sacramento

Tuesday, October 25, 2005, 1:30 p.m.  
Capitol Square Building  
450 N Street, 1<sup>st</sup> Floor Board Room

To let us know your topic or to send written material in advance, please contact

Taxpayers' Rights Advocate, MIC:70  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0070

Call toll-free: 888-324-2798

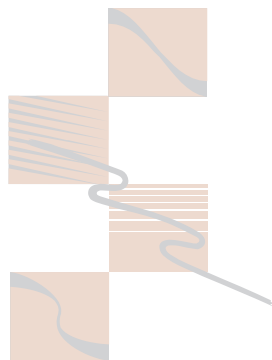
Fax: 916-323-3319

E-mail: [www.boe.ca.gov/info/emailtra.htm](http://www.boe.ca.gov/info/emailtra.htm)

### 2. EFT—A quick and simple way to pay!

Tired of writing paper checks? Pay your taxes and fees by electronic funds transfer (EFT)!

It's easy and convenient. You can make EFT payments by authorizing a bank or similar institution to electronically transfer money from your bank account to the state's bank account. Payments can be authorized by phone or



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through your bank. Using “Automated Clearing-house” debit payments, you can arrange a payment up to 60 days in advance.

You can use EFTs to pay amounts due with your returns or other amounts you owe us. Nearly all fuel tax and fee program accounts are eligible to pay by EFT. Please note that taxpayers and fee payers with an average monthly liability of at least \$20,000 *must* pay by EFT.

If you would like to register to make EFT payments, please visit our website at [www.boe.ca.gov/sptaxprog/speftpsd.htm](http://www.boe.ca.gov/sptaxprog/speftpsd.htm) for more information and to download an *Authorization Agreement for Electronic Funds Transfer (EFT)* (form BOE-555-ST).

For more information, contact the Fuel Industry Section by calling 916-322-9669. Staff can assist you Monday through Friday, 8:00 a.m. to 5:00 p.m. (Pacific time).

### 3. What should you do if our auditor asks you to sign a *Waiver of Limitation*?

If you are being audited and you need to delay the start or completion of your audit, our auditor may ask you to sign a *Waiver of Limitation* (form BOE-122). You may wonder whether you have to sign this form and what the impact of your signing will be. By signing the waiver, you agree to extend the three-year statute of limitations for the period shown. This allows us to examine your records and issue a billing or refund for periods that we otherwise could not consider in the audit.

Since the *Waiver of Limitation* is a voluntary agreement, you do not have to sign the form. However, doing so may give you more time to work with audit staff to informally resolve audit issues before the start of the formal billing and appeals process.

If you have any questions or concerns about the waiver, be sure to discuss them with your auditor.

## ■ Motor Vehicle Fuel Tax and Diesel Fuel Tax Programs

### Motor Vehicle Fuel Tax

#### 4. Requesting a gasoline tax refund

Farmers, exporters, utilities, golf courses, transit operators, and many other businesses commonly use gasoline in ways that are exempt from the

state gasoline tax. For example, they may export the gasoline or use it off highway. If you have used gasoline for an exempt purpose, you may file a claim for refund with the State Controller's Office.

To download a claim form (SCGR-1) and new schedules, go to the Controller's website at [www.sco.ca.gov/col/taxinfo/gtr/index.shtml](http://www.sco.ca.gov/col/taxinfo/gtr/index.shtml). Follow the directions to file your claim for refund. If you need help, see the contact information on the Controller's website.

### Suppliers may be able to take a credit

Under some circumstances, suppliers may take a credit on their motor vehicle fuel tax return instead of filing a claim for refund. In general, suppliers may take a credit when they do any of the following:

- Sell motor vehicle fuel to a consular official
- Use motor vehicle fuel in a tax-exempt way
- Export fuel in a way that would qualify for a tax refund

*Please note:* The credits on a supplier's return cannot be more than the amount of tax otherwise due with the return. If credit amounts exceed the tax due, you will not receive a refund. Instead, you must file a claim for refund with the State Controller, as explained above.

## Diesel Fuel Tax

### 5. New regulation limits idling time of diesel-powered commercial vehicles

If you operate a diesel-powered commercial vehicle, you may be affected by a new regulation. The regulation generally limits engine idling to five minutes. The California Air Resources Board adopted the regulation to reduce public exposure to diesel exhaust particles and other toxic air contaminants. The regulation, which went into effect on February 1, 2005, applies to commercial diesel-fueled vehicles with a gross vehicle weight rating (GVWR) greater than 10,000 pounds.

To help determine if your vehicle is covered by the idling restrictions, see [www.arb.ca.gov/toxics/idling/idling.htm](http://www.arb.ca.gov/toxics/idling/idling.htm).

### 6. Biodiesel: Answers to your common questions

#### What is biodiesel?

Unlike traditional diesel, which is made from petroleum crude oil, biodiesel is produced from a plant or animal fat or oil, such as soybean oil, through a process called “transesterification.”

Need more information?  
Give us a call or go online. See the back page for telephone numbers and website addresses.

## How do California road (excise) taxes apply to biodiesel?

Under California law, biodiesel, methyl esters, and other diesel fuel replacements that can be used in diesel-powered engines are defined as diesel fuel and taxed the same way as diesel fuel.

## What if I blend biodiesel with petroleum diesel?

Regardless of the blend, tax is due on the removal, sale, or use of any fuel or portion of fuel acquired without payment of the 18 cents-per-gallon California excise tax. If you blend or manufacture biodiesel for your own use, the tax is due when you put the biodiesel in the fuel tank of your vehicle. Suppliers should report untaxed biodiesel that is blended with tax-paid petroleum diesel fuel and sold in California on Schedule 5W, *Untaxed Products Blended With, or Added to Fuel, Resulting in a Product Which is Used as, or is Usable as a Taxable Fuel*.

## What type of license is required for biodiesel?

You are generally required to hold a Supplier's License if you make, sell, or import biodiesel unless you acquire the biodiesel tax-paid from someone else. You can obtain an application for the license (form BOE-400-FCO) from our website: [www.boe.ca.gov/pdf/boe400fco.pdf](http://www.boe.ca.gov/pdf/boe400fco.pdf).

## Are there any exemptions for biodiesel?

The exemptions that apply to diesel fuel also apply to biodiesel. Farmers, exempt bus operators, and train operators may issue exemption certificates to their suppliers. Other exemptions include sales to the United States (including its agencies and instrumentalities) and certain off-highway uses.

## How do I file a claim for refund on biodiesel used off-highway or in another exempt way?

If you are a Diesel Fuel Supplier or an Ultimate Vendor, you may take a credit on your return or report. A diesel user can apply for a refund for exempt uses after registering with us. The diesel user application (form BOE-400-FTA) is available on our website at [www.boe.ca.gov/pdf/boe400-fta.pdf](http://www.boe.ca.gov/pdf/boe400-fta.pdf).

## What if I have other questions about biodiesel?

Please contact the Fuel Taxes Division at 916-322-9669 or write

Fuel Industry Section MIC: 30  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0030

## 7. For suppliers: Claiming a credit for bad debt losses

At times in your business life, you may find that customers do not pay amounts they owe you for diesel purchases. When that happens, you may be able to claim a bad debt loss credit. Licensed diesel fuel suppliers may claim a bad debt loss credit when they

- Cannot collect amounts a customer owes them on the sale of diesel fuel.
- Have paid the diesel fuel tax on the sale with their *Supplier of Diesel Fuel Tax Return*.

There is no similar provision for bad debt losses for sales of other fuels.

Before you take a credit for tax you paid on a diesel sale that became a bad debt, you must find the account worthless and charge it off for income tax purposes.

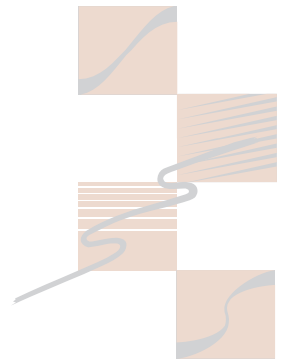
You may claim the credit on *Summary Schedule S04* for the reporting period in which you found the account worthless. Or you may file a claim for refund for the amount of tax you overpaid. Generally, you must file the claim for refund or claim the credit within three years of the due date of the return for the reporting period in which you charged off the sale for income tax purposes.

*Example:* You made a diesel fuel sale on credit in July 2003. You paid the diesel fuel tax on the sale with your return for the reporting period that included July 2003. Your customer never paid you and went out of business in July 2004. In February 2005, you found the account worthless and charged it off your books for income tax purposes. You must file your claim for refund or claim a credit within three years of the due date for the return for the reporting period that includes February 2005.

If you receive payment on a bad debt after you have filed a claim for refund or claimed a credit, you must report the payment as a taxable transaction. Report that transaction on the first return you file after you receive the payment.

You should maintain the following information and records to document a bad debt deduction:

- Date of the original sale
- Name and address of the purchaser
- Number of gallons and dollar amount of bad debt
- Invoices that show the tax was charged
- Amount on which you, the supplier, paid tax
- All payments or other credits applied to the purchaser's account
- Evidence that the debt has been properly charged off for income tax purposes

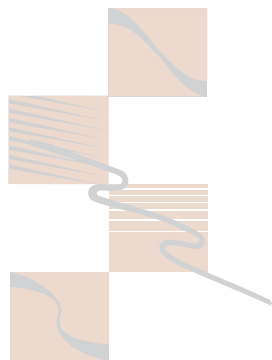


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**Need more information?**  
Give us a call or go online. See the back page for telephone numbers and website addresses.

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## 8. Diesel refund publication in the works

Need help filing your claims for refund? We're starting work on a new diesel fuel tax refund publication and hope to publish it this summer. It should help answer your most common questions and make the claim process easier.

## Motor Vehicle Fuel Tax and Diesel Fuel Tax

### 9. Tax reporting tips

#### Document number reporting requirements for suppliers and terminal operators

A position holder who removes fuel at the rack must report that removal on the appropriate schedule (3 through 10) using the bill of lading number the terminal operator issues for the transaction. The terminal operator must also use the same bill of lading number when reporting the transaction. Be sure that you do not alter this number or report an internal document number on your return or report.

#### Terminal operator—reporting tips

##### Product reclassifications

Terminal operators often receive products in a terminal and blend them with another product for distribution. For example, gasoline (product code 065) and ethanol (241) may be received by a terminal, blended, and distributed as gasohol (140). Or clear diesel fuel (167) may have dye added to it to be distributed as dyed diesel fuel (227). In both of these examples, the product received by the terminal and reported on the *Terminal Receipts Schedule* is different than the product distributed across the rack and reported on the *Terminal Disbursements Schedule*.

Properly reporting the product reclassification is simple. For example, if you receive gasoline (065) and ethanol (241), blend them, and distribute the resulting product as gasohol (140), you would report the transaction as follows:

1. Report all terminal receipts (TR Schedules) of 065 and 241
2. Report a terminal disbursement (TD Schedule) book adjustment (BA) for the total gallons of 065 blended into 140
3. Report a terminal disbursement (TD Schedule) book adjustment (BA) for the total gallons of 241 blended into 140
4. Report a terminal receipt (TR Schedule) book adjustment (BA) for the total gallons of 140

5. Report all terminal disbursements (TD Schedule) of 140

You may use this method to summarize all transactions during a period or on a transaction-by-transaction basis for each disbursement of the reclassified product.

#### Transactions at airports

Terminal operator transactions at airports have some unique reporting circumstances, including hydrant fueling systems and IRS-identified secured terminals.

##### Hydrant fueling systems

Hydrant fueling systems consist of aboveground or underground fuel storage tanks; a pump house containing pumps, control valves, and filters; fuel distribution pipe; and refueling stands near the aircraft. The refueling stand is a loading arm or an underground metal or fiberglass "hydrant" fuel pit. You may summarize your hydrant fueling system distributions each day by position holder. Report the summarized transactions on the TD Schedule and use the GS mode code.

##### IRS-secured terminals

California airports that include a secured area are Oakland International, Ontario International, San Diego International, and San Francisco International. You may summarize qualifying truck removals each day by position holder. Report the summarized transactions on the TD Schedule and use the GS mode code.

## ■ Underground Storage Tank Maintenance Fee

### 10. Tank owners owe the fee

The underground storage tank maintenance fee is imposed upon the *owner* of an underground storage tank for each gallon of petroleum placed into the tank. The owner of the tank is liable for payment of the fee. This is true even if the owner does not operate the tank. The owner is liable for the fee even if the owner and operator have entered into an agreement that requires the operator to pay the fee to us.

If you have any questions regarding the underground storage tank maintenance fee, please contact our Fuel Industry Section staff at 916-322-9669.

Publication 88, *Underground Storage Tank Maintenance Fee*, was revised effective February 2005. It is now available on our website at [www.boe.ca.gov/pdf/pub88.pdf](http://www.boe.ca.gov/pdf/pub88.pdf). You may also order a printed copy using our online ordering system.

#### Fuel Taxes Division

916-322-9669

Board of Equalization, MIC:30  
P.O. Box 942879  
Sacramento, CA 94279-0030

#### Board website and Member contact information:

[www.boe.ca.gov](http://www.boe.ca.gov)

#### Tax Evasion Hotline

888-334-3300

#### Legislation

[www.leginfo.ca.gov](http://www.leginfo.ca.gov)

#### Taxpayers' Rights Advocate

888-324-2798

[www.boe.ca.gov/tra/tra.htm](http://www.boe.ca.gov/tra/tra.htm)